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Agreement Between the
UNITED STATES OF AMERICA
and SRI LANKA

Signed at Colombo August 31, 1978

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SRI LANKA

Agricultural Inputs

Agreement signed at Colombo August 31, 1978;
Entered into force August 31, 1978.

A.I.D. Loan Number 383-T-022

Project Number 383-0051

PROJECT

LOAN AGREEMENT

BETWEEN

THE GOVERNMENT OF THE REPUBLIC OF SRI LANKA

and the

UNITED STATES OF AMERICA

for

AGRICULTURAL INPUTS

Dated: August 31, 1978

TIAS 9516

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[1] Not printed herein. The annex is deposited in the archives of the Department of State where it is available for reference.

A.I.D. Project No.383-0051

Project Loan Agreement

Dated August 31, 1978

Between

The Republic of Sri Lanka ("Borrower")

And

The United States of America, acting through the Agency for International Development ("A.I.D.").

Article 1: The Agreement

The purpose of this Agreement is to set out the understandings of the Parties named above ("Parties") with respect to the undertaking by the Borrower of the Project described below, and with respect to the financing of the Project by the Parties.

Article 2: The Project

SECTION 2.1 Definition of Project. The Project, which is further described in Annex 1, will finance fertilizer imports primarily for application during the following crop seasons: Maha 1978-79, Yala 1979, Maha 1979-80, and Yala 1980. The loan is expected to finance 44 percent of the cost of fertilizer imports during 1979 and 1980. In addition, a portion of the loan may finance local studies and institutional reforms by the Borrower in the fertilizer distribution and marketing systems to make fertilizer more accessible to the small farmer. Annex 1, attached, amplifies the above definition of the Project.

Within the limits of the above definition of the Project, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 9.2, without formal amendment of this Agreement.

SECTION 2.2 Incremental Nature of Project

(a) A.I.D.'s contribution to the Project will be provided in increments, the initial one being made available in accordance with Section 3.1 of this Agreement. Subsequent increments will be subject to availability of funds to A.I.D. for this purpose, and to the mutual agreement of the Parties, at the time of a subsequent increment, to proceed.

(b) Within the overall Project Assistance Completion Date stated in this Agreement, A.I.D., based upon consultation with the Borrower, may specify in Project Implementation Letters appropriate time periods for the utilization of funds loaned by A.I.D. under an individual increment of assistance.

Article 3: Financing

SECTION 3.1 The Loan. To assist the Borrower to meet the costs of carrying out the Project, A.I.D. pursuant to the Foreign Assistance Act of 1961, as amended, [1] agrees to lend the Borrower under the terms of this Agreement not to exceed twelve million United States ("U.S.") dollars ($12,000,000) ("Loan"). The aggregate amount of disbursements under the Loan is referred to as "Principal".

The Loan may be used to finance foreign exchange costs, as defined in Section 7.1, and local currency costs, as defined in Section 7.2, of goods and services required for the Project, except that, unless the Parties otherwise agree in writing, Local Currency Costs financed under the Loan will not exceed the equivalent of Three Hundred Thousand U.S. Dollars ($ 300,000).

SECTION 3.2 Borrower Resources for the Project.

(a) The Borrower agrees to provide or cause to be provided for the Project all funds, in addition to the Loan, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by Borrower for the Project will be not less than the equivalent of U.S. $ 23.6 million, including costs borne on an "in-kind" basis.

SECTION 3.3 Project Assistance Completion Date

(a) The "Project Assistance Completion Date" (PACD), which is August 31, 1980, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Loan will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Loan for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in Section 8.1 no later than nine (9) months following the PACD, or such other period, as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Borrower, may at any time or times reduce the amount of the Loan by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

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[1] 75 Stat. 424; 22 U.S.C. § 2151 note.

Article 4: Loan Terms

SECTION 4.1. Interest. The Borrower will pay to A,I.D. interest which will accrue at the rate of two percent (2%) per annum for ten (10) years following the date of the first disbursement hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding balance of Principal and on any due and unpaid interest. Interest on the outstanding balance will accrue from the date (as defined in Section 8.5) of each respective disbursement, and will be payable semi-annually. The first payment of interest will be due and payable no later than six (6) months after the first disbursement hereunder, on a date to be specified by A.I.D.

SECTION 4.2 Repayment. The Borrower will repay to A.I.D. the Principal within forty (40) years from the date of the first disbursement of the Loan in sixty one (61) approximately equal semi-annual installments of Principal and interest. The first installment of Principal will be payable nine and one-half (9-1/2) years after the date on which the first interest payment is due in accordance with Section 4.1. A.I.D. will provide the Borrower with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

SECTION 4.3. Application, Currency, and Place of Payment. All payments of interest and Principal hereunder will be made in U.S. Dollars and will be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C. 20523, U.S.A., and will be deemed made when received by the Office of Financial Management.

SECTION 4.4. Prepayment. Upon payment of all interest and any refunds then due, the Borrower may prepay, without penalty, all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayments will be applied to the installments of Principal in the inverse order of their maturity.

SECTION 4.5. Renegotiation of Terms.

(a) The Borrower and A.I.D. agree to negotiate, at such time or times as either may request, an acceleration of the repayment of the Loan in the event that there is any significant and continuing improvement in the internal and external economic and financial position and prospects of the Republic of Sri Lanka, which enable the Borrower to repay the Loan on a shorter schedule.

(b) Any request by either Party to the other to so negotiate will be made pursuant to Section 9.1, and will give the name and address of the person or persons who will represent the requesting Party in such negotiations.

(c) Within thirty (30) days after delivery of a request to negotiate, the requested Party will communicate to the other, pursuant to Section 9.1, the name and address of the person or persons who will represent the requested Party in such negotiations.

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under sub-section (c). The negotiations will take place at a location mutually agreed upon by the representatives of the Parties, provided that, in the absence of mutual agreement, the negotiations will take place at the office of Borrower's Director of External Resources Division, Ministry of Finance and Planning in Sri Lanka.

SECTION 4.6. Termination on Full Payment. Upon payment in full of the Principal and any accrued interest, this Agreement and all obligations of the Borrower and A.I.D. under it will cease.

Article 5: Conditions Precedent to Disbursement.

SECTION 5.1. First Disbursement. Prior to the first disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms;

(b) A statement of the name of the person holding or acting in the office of the Borrower specified in Section 9.2, and of any additional representatives, together with a specimen signature of each person specified in such statement.

SECTION 5.2. Notification. When A.I.D. has determined that the conditions precedent specified in Section 5.1 have been met, it will promptly notify the Borrower.

SECTION 5.3. Terminal Date for Conditions Precedent. If all of the conditions specified in Section 5.1 have not been met within 30 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Borrower.

Article 6: Special Covenants

SECTION 6.1. Project Evaluation. The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter: (a) evaluation of progress toward attainment of the objectives of the Project; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment; (c) assessment of how such information may be used to help overcome such problems; and (d) evaluation, to the degree feasible, of the overall development impact of the Project.

SECTION 6.2. Reform of Distribution System. The Borrower herewith covenants to take appropriate action to implement reforms in the fertilizer distribution system as are necessary to improve the distribution of fertilizer financed by A.I.D. under this project.

Article 7: Procurement Source

SECTION 7.1. Foreign Exchange Costs. Disbursement pursuant to Section 8.1 will be exclusively to finance the costs of goods and services required for the Project. Except for fertilizer and ocean shipping, goods and services financed by A.I.D. under the Project shall have their source and origin in the Cooperating Country and in countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing. Urea fertilizer procured under the Loan shall have its source and origin in countries included in A.I.D. Geographic Code 941. Phosphatic fertilizer procured under the Loan shall have its source and origin in the United States, (A.I.D. Geographic Code 000), except as A.I.D. may otherwise agree in writing. The eligibility of sources for fertilizer will be reviewed as subsequent increments under the Project are approved. Unless A.I.D. otherwise agrees in writing, ocean shipping (except for Urea and Phosphatic fertilizers) financed under the loan shall be procured in the United States or the Cooperating Country. Ocean shipping for Urea and Phosphatic fertilizers shall be procured in the United States, Cooperating Country, or countries included in A.I.D. Geographic Code 941.

SECTION 7.2. Local Currency Costs. Disbursements pursuant to Section 8.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in Sri Lanka ("Local Currency Costs").

Article 8: Disbursements

SECTION 8.1. Disbursement for Foreign Exchange Costs.

(a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

(1) by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, (A) requests for reimbursement for such goods or services, or (B) requests for A.I.D. to procure commodities or services in Borrower's behalf for the Project; or

(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (A) to one or more U.S.banks, satisfactory to A.I.D., commiting A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letter of Credit or otherwise, for such goods or services, or (B) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

(b) Banking charges incurred by Borrower in connection with Letters of Commitment and Letters of Credit will be financed under the Loan unless the Borrower instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Loan.

SECTION 8.2. Disbursement for Local Currency Costs.

(a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursement hereunder may be obtained by acquisition by A.I.D. with U.S. dollars by purchase or from local currency already owned by the U.S. Government;

The U.S. dollar equivalent of the local currency made availabe hereunder will be the amount of U.S. dollars required by A.I.D. to obtain the local currency.

SECTION 8.3. Other Forms of Disbursement. Disbursements of the Loan may also be made through such other means as the Parties may agree to in writing.

SECTION 8.4. Rate of Exchange. If funds provided under the Loan are introduced into Sri Lanka by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Borrower will make such arrangements as may be necessary so that such funds may be converted into currency of Sri Lanka at the highest rate of exchange which at the time the conversion is made, is not unlawful in Sri Lanka.

SECTION 8.5. Date of Disbursement. Disbursements by A.I.D. will be deemed to occur on the date on which A.I.D. makes a disbursement to the Borrower or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment, contract, or purchase orders.

Article 9: Miscellaneous

SECTION 9.1. Communications. Any notice, request, document or other communication submitted by either party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following address:

To the Borrower:

Mail Address: Director
External Resources Department
Ministry of Finance & Planning
Colombo 1, Sri Lanka

Alternate address for telegrams:

FORAID
Colombo, Sri Lanka

To A.I.D.:

Mail Address: Director
USAID Colombo
American Embassy
Colombo, Sri Lanka

Alternate address for telegrams:

USAID AMEMBASSY
Colombo, Sri Lanka

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

SECTION 9.2. Representatives. For all purposes relevant to this Agreement, the Borrower will be represented by the individual holding or acting in the office of Director of External Resources Department, Ministry of Finance and Planning and A.I.D. will be represented by the individual holding or acting in the office of Director, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description

in Annex 1. The names of the representatives of the Borrower, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 9.3. Standard Provisions Annex. A "Project Loan Standard Provisions Annex" (Annex 2)[1] is attached to and forms part of this Agreement.

IN WITNESS WHEREOF, the Borrower and the United States of America, each acting through its duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

GOVERNMENT OF THE REPUBLIC OF SRI LANKA	UNITED STATES OF AMERICA
By: W. M. Tilakaratna	By: W. Howard Wriggins
Name: W.M. Tilakaratna	Name: W.Howard Wriggins
Title: Secretary, Ministry of Finance & Planning	Title: American Ambassador

[1] See footnote 1, p. 3.

ANNEX I

A. Project Description

Near term increases in agricultural production depend to a large extent on application of appropriate fertilizers. Application in turn depends on availability of fertilizer in sufficient amounts at the right time on the farm. The Government of Sri Lanka has undertaken a program of reform and modernization of the fertilizer distribution and marketing system as well as increased procurement and production of fertilizer in an effort to ensure that more fertilizer is available to farmers when they need it. Changes in the system are expected to benefit smaller farmers in particular. These farmers primarily produce paddy.

The loan(s) will provide the Government of Sri Lanka a portion of the resources necessary to procure the additional fertilizer required. The funds will finance fertilizer imports primarily for application during the following crop seasons: Maha 78/79, Yala 79, Maha 79/80 and Yala 80. If loan funds were used exclusively for urea imports and a C.I.F. cost of $ 175/ton is assumed, the loan(s) would finance 177,000 tons of urea or roughly 67% of required urea imports during the period. More broadly considered, the loan(s) can be expected to finance 44% of the cost of fertilizer imports during 1979 and 1980. AID financing complements GSL and other donor financing of fertilizer imports and GSL policy and marketing changes designed to promote the use of and make available fertilizer for increased food production.

For the Fiscal Years 1978 thru 1980 AID has planned, subject to the availability of funds, to provide financing for the project of not to exceed US $ 31 million. The initial FY 1978 increment of US $ 12 million under the loan is expected to finance fertilizer primarily for Maha 78/79 and Yala 79. Not to exceed US $ 300,000 of this initial increment may be used in connection with local studies and institutional reforms by the Borrower in the fertilizer distribution and marketing systems. Subsequent increments will be subject to the availability of funds to A.I.D. for the project and to the mutual agreement of A.I.D. and the Government of Sri Lanka to proceed.

B. Borrowers Contribution

It is difficult to arrive at a specific figure and corresponding percentage for the borrowers contribution for fertilizer imports, domestic production, and distribution during the 24 months disbursement period planned for the AID contribution due to uncertainities regarding other donors financing over this period. However an indication of the magnitude of the likely contribution can be made.

The cost of the project for the two year period 1979 and 1980 is estimated at US $ 94.5 million. This consists of approximately US $ 70 million of imported fertilizer and the equivalent of US $ 24.5 million in distribution and marketing costs.

Considering the AID contribution of US $31 million and other donor credits of approximately US $ 31.6 million, the Borrower would be contributing the equivalent of US $ 31.9 million or 34% of project costs. Thus it would appear that the Borrower would more than adequately meet its minimum 25% contribution to the project of US $ 23.6 million.

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